

Message Text

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SUBJECT: CHAIRMAN'S OUTLINE OF CONCLUSIONS OF THE ECONOMIC
POLICY COMMITTEE MEETING OF MAY 24-30, 1978

1. THE FOLLOWING CHAIRMAN'S OUTLINE OF CONCLUSION OF THE
ECONOMIC POLICY COMMITTEE MEETING OF MAY 24-30, 1978 SHOULD
BE TRANSMITTED BY MISSION TO OECD SECRETARIAT FOR DISTRI-
BUTION TO DELEGATIONS AND TO DRAW UPON WHEN PREPARING DRAFT
COMMUNIQUE FOR THE MINISTERIAL. ALL RECIPIENTS SHOULD BE
REMINDING THAT THIS SUMMARY IS NOT BEING AND SHOULD NOT BE
RELEASED QUICKLY.

2. BEGIN TEXT:

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I. ECONOMIC SITUATION

1. THERE WAS GENERAL AGREEMENT THAT PROSPECTS FOR OUR
ECONOMIES UNDER CURRENT POLICIES WERE UNSATISFACTORY.
GROWTH IN MOST COUNTRIES WOULD REMAIN INADEQUATE TO BRING
DOWN CURRENT HIGH RATES OF UNEMPLOYMENT. CURRENT ACCOUNT
IMBALANCES WOULD REMAIN A DISTURBING FACTOR IN EXCHANGE

MARKETS. EVEN WITH IDLE LABOR AND CAPITAL, INFLATIONARY MOMENTUM WOULD CONTINUE TO BE STRONG IN MANY COUNTRIES. CONTINUING ALONG THIS PATH WOULD BE UNSATISFACTORY, INDEED, SOME EXPRESSED THE VIEW THAT IT WOULD BE IMPOSSIBLE. WEAK INVESTMENT WOULD SLOW THE GROWTH POTENTIAL FOR REAL INCOME, AND HIGH UNEMPLOYMENT AND INFLATION WOULD PROGRESSIVELY UNDERMINE SOCIAL AND POLITICAL STABILITY. PRESSURES WOULD MOUNT FOR PROTECTIONIST POLICIES AND OTHER DEFENSIVE POLICIES THAT TEND TO UNDERMINE ECONOMIC EFFICIENCY IN THE LONGER RUN.

2. IN MANY COUNTRIES THE SCOPE NOW EXISTS FOR MODERATE BUT VARYING INCREASES IN GROWTH WITHOUT SACRIFICING IN ANY SIGNIFICANT WAY INTERNAL STABILIZATION OBJECTIVES.

3. IF ACTIONS ARE UNDERTAKEN IN A NUMBER OF AREAS ON A CONCERTED BASIS BY ALL OF OUR COUNTRIES, THE EXTERNAL CONSTRAINTS WHICH MANY OF US FACE WOULD BE RELAXED.

4. SUCH CONCERTED POLICIES SHOULD PUT THE COUNTRIES OF THE OECD ON A PATH TOWARDS MODERATE SUSTAINED GROWTH OVER THE MEDIUM TERM.

5. GROWTH SHOULD BE ACHIEVED BY A COMBINATION OF ACTIONS TO STIMULATE INTERNAL DEMAND AND POLICIES WHICH IMPROVE THE ENVIRONMENT AND CONDITION FOR LONG-TERM SUSTAINABLE
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GROWTH, ESPECIALLY, IN MANY COUNTRIES, WITH RESPECT TO IMPROVING THE PROSPECTS FOR PROFITS AND OF BUSINESS INVESTMENT.

II. ELEMENTS OF CONCERTED ACTION

1. WITH RESPECT TO ECONOMIC STIMULUS AIMED AT HIGHER GROWTH, COUNTRIES HAVE VARYING SCOPE FOR ACTION DURING THE NEXT 18 MONTHS.

A) THERE IS ONE GROUP OF COUNTRIES WHOSE INTERNAL AND EXTERNAL SITUATION IS SUCH THAT IN THE CONTEXT OF CONCERTED ACTION THEY SHOULD UNDERTAKE TO ENSURE, BY APPROPRIATE MEASURES AS NECESSARY, AN EXPANSION OF INTERNAL DEMAND OVER THE NEXT 18 MONTHS AT A RATE SIGNIFICANTLY ABOVE THAT WHICH OCCURRED IN 1977. THESE COUNTRIES ARE: BELGIUM, CANADA, FRANCE, GERMANY, ITALY, JAPAN, SWITZERLAND, UNITED KINGDOM. THE NETHERLANDS SHOULD ENSURE THAT GROWTH IS MAINTAINED AT LEAST AS HIGH AS IN 1977. WITHIN THIS GROUP OF COUNTRIES, BOTH THE NEED AND THE SCOPE FOR THE EXPANSION OF INTERNAL DEMAND VARY FROM COUNTRY TO COUNTRY.

B) MOST OTHER COUNTRIES WITHIN THE OECD, WHO ARE NOT CURRENTLY IN A POSITION TO TAKE EXPLICIT ACTION TO EXPAND INTERNAL DEMAND BEYOND WHAT IS NOW IN PROSPECT, CAN ACCEPT THE HIGHER GROWTH WHICH CONCERTED ACTION MAKES POSSIBLE THROUGH AN EXPANSION OF WORLD MARKETS. IN A FEW COUNTRIES

THE SITUATION WITH RESPECT TO INFLATION AND/OR BALANCE OF PAYMENTS CONDITIONS IS SUCH THAT THEY SHOULD USE THE EXPANSION OF EXTERNAL DEMAND TO STRENGTHEN THEIR OWN STABILIZATION POLICIES WITHOUT ALLOWING THE OVERALL GROWTH OF DEMAND TO BE INCREASED.

2. A SECOND ELEMENT OF A CONCERTED SET OF POLICIES RELATES TO ENERGY. IT IS IMPORTANT THAT ALL COUNTRIES HAVE IN CONFIDENTIAL

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PLACE ENERGY CONSERVATION AND SUPPLY-RAISING PROGRAMS. IN LOOKING TOWARDS SATISFACTORY AND SUSTAINED MEDIUM-AND-LONG-TERM GROWTH, IT IS IMPORTANT THAT ALL OUR COUNTRIES WORK VIGOROUSLY TO REDUCE OUR COMBINED DRAIN UPON LIMITED OIL SUPPLIES IN ORDER TO AVOID CREATING A FUTURE CONSTRAINT ON OUR ECONOMIC GROWTH. IT IS PARTICULARLY IMPORTANT FOR THE UNITED STATES TO PUT SUCH POLICIES QUICKLY IN PLACE IN VIEW OF THE IMPORTANCE OF SUCH ACTIONS FOR ITS CURRENT ACCOUNT DEFICIT AND FOR THE PROMOTION OF STABILITY IN INTERNATIONAL EXCHANGE MARKETS.

3. IN ORDER TO ENSURE THAT ECONOMIC GROWTH IS CHANNNELED IN DIRECTIONS THAT ARE SUSTAINABLE IN THE LONG RUN, ALL COUNTRIES SHOULD:

A) JOIN IN SEEKING A PRODUCTIVE OUTCOME OF THE MTN NEGOTIATIONS.

B) AVOID PROTECTIONIST MEASURES AND WORK TOWARD A REDUCTION OF NON-TARIFF BARRIERS TO TRADE, AND

C) PROMOTE STRUCTURAL ADJUSTMENT BETWEEN DOMESTIC INDUSTRIES AND SECTORS IN WAYS WHICH EMPHASIZE THE MOBILITY OF CAPITAL AND LABOR, WHILE AVOIDING DOMESTIC MEASURES WHICH TEND TO RIGIDIFY THE EXISTING PATTERNS OF EMPLOYMENT AND OUTPUT AND SO PLACE OBSTACLES IN THE WAY OF NEEDED ADJUSTMENT.

4. CONCERTED POLICIES ALONG THE LINES DESCRIBED ABOVE, IN ADDITION TO IMPROVING THE PROSPECTS FOR ECONOMIC GROWTH, EMPLOYMENT, INVESTMENT AND PRODUCTIVITY IN ALL OF OUR COUNTRIES, SHOULD ALSO HELP TO BRING ABOUT A BETTER ALIGNMENT OF PAYMENTS BALANCES AND THEREBY CONTRIBUTE CONFIDENTIAL

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TO GREATER STABILITY IN INTERNATIONAL EXCHANGE MARKETS.
IN TURN, SUCH GREATER STABILITY WILL IMPROVE CONFIDENCE
AND IMPROVE THE ENVIRONMENT FOR SUSTAINED ECONOMIC GROWTH.
COOPERATION AMONG MONETARY AUTHORITIES OF OUR VARIOUS
COUNTRIES IN THE INTEREST OF FACILITATING ORDERLY CONDI-
TIONS IN EXCHANGE MARKETS WOULD ALSO STRENGTHEN THIS
RESULT. VANCE

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